

Purdue University
Purdue e-Pubs

Purdue CIBER Working Papers

Krannert Graduate School of Management

1-1-2003

The Role of Cultural Distance in International Negotiations

Paul Drnevich

Follow this and additional works at: <http://docs.lib.purdue.edu/ciberwp>

Drnevich, Paul, "The Role of Cultural Distance in International Negotiations" (2003). *Purdue CIBER Working Papers*. Paper 25.
<http://docs.lib.purdue.edu/ciberwp/25>

This document has been made available through Purdue e-Pubs, a service of the Purdue University Libraries. Please contact epubs@purdue.edu for additional information.

THE ROLE OF CULTURAL DISTANCE IN INTERNATIONAL NEGOTIATIONS

**A working paper by:
Paul Drnevich
Doctoral Student – Strategic Management
Purdue University - Krannert Graduate School of Management
P.O. BOX 2744
West Lafayette, IN 47906
(765) 430-6900
dren@purdue.edu**

ABSTRACT

This paper attempts to examine the issues surrounding the role of national culture bias and the concept of distance among Hofstede's (1980) cultural dimensions on the ability to reach integrative agreements in international business arrangements between firms. Relational models of negotiating and the role of culture are presented as well as several managerial implications and propositions for future research.

INTERNATIONAL BUSINESS, NEGOTIATING, & CULTURE

International business, on a macro level, is conducted within a framework of trade agreements derived from negotiations among governments. When a government, in such a negotiation, wins concessions from another government, these concessions are typically harmful to consumers in the country whose government "won" the concession. Such concessions are usually agreements by other countries to limit the intensity with which foreign firms will compete in the export market. These concessions help special interests such as domestic firms by shielding them from competition, but harm the majority interests of the nation by imposing higher costs on domestic consumers. This is demonstrated through sugar prices in the U.S., or the retail price of rice in Japan -- both of which are well in excess of world market rates (Boudreaux, 1995). A negotiation model which encompasses cultural dimensions could be an appropriate means for effectively obtaining a balance between special and majority interests of each nation in international business agreements. Ideally, a global trade framework should take into account differences in cultural dimensions, and attempt to use them as a negotiating asset in the pursuit of mechanisms to facilitate an integrative outcome oriented system of international business.

Culture, defined as "the collective mental programming of people in an environment," (Hofstede, 1980), refers to a conditioning of a group of people which will influence a lifetime of thought processes, behavior, and actions. Culture is an ingrained behavioral influence which affects the way collective groups approach, evaluate, and negotiate

opportunities for international business. This paper attempts to examine the issues surrounding the impact of national culture on the ability to reach an agreement in international business negotiations. It is my hypothesis that national culture will produce certain predetermined biases which, when combined with the degree of distance between cultural dimensions and the negotiating style employed, predictably affect the negotiator's ability to reach integrative (win/win) agreements.

National culture resides in deeply-rooted values (Hodgetts 1993), and its distinctions are found to vary widely. The pursuit of establishing characteristics to define and measure these distinctions has been an ongoing focus of many research efforts. Geert Hofstede (1980) developed a pioneering and widely accepted classification scheme which breaks national culture into the dimensions of power distance, uncertainty avoidance, individualism-collectivism, and masculinity-femininity. Hofstede's (1980) first dimension, power distance, examines a culture's tolerance for accepting unequal dispersions in power between members of organizations. The second dimension, uncertainty avoidance, is based upon a society's degree of uncomfortability with ambiguous, unpredictable situations, and its pursuit of stabilizing activities to avoid such situations. The individualism-collectivism dimension measures a society's degree of identification with, and level of dependence on social frameworks. Hofstede's final dimension uses the terms masculinity and femininity to describe groupings of characteristics such as assertiveness, wealth, people, and quality of life that a society places value on (Hofstede 1980, 1991).

Negotiation, a process through which agreement may be reached on matters of mutual interest, is essentially the art of persuasion (Pruitt, 1981). As such, persuasion can result in one of three distinct negotiating outcomes -- integrative agreements, distributive agreements, or no agreement. Integrative outcomes result in the production of increased benefits through the negotiation process which are in excess of the sum of inputs. An example of this is the generation of new solutions through the negotiation process which satisfy or exceed each party's interests. This outcome is contrasted by distributive outcomes which simply result in a division of the original inputs among the negotiating parties. Here, no new solutions are produced through the negotiation process. This is usually due to the fact that each party is preoccupied with defending or expanding its position.

Numerous cross-cultural endeavors end in failure -- due mainly to a negotiator's inability to accept and adapt to the underlying beliefs of the other party (Currie 1991). Since international business negotiations are more complex than domestic, due largely to this added dimension of cultural diversity, one proposed solution to the limitations of principled negotiating is the synergistic approach (Adler 1991). The culturally collaborative synergistic style of negotiating emphasizes that understanding the other parties, their interests, and their assessment criteria, becomes more difficult due to cultural and communication differences. However, the diversity of culture may enhance the generation of creative options for mutual gain. Based on these assumptions, synergistic negotiating suggests that if cross-cultural differences are recognized, clearly communicated, and understood by the negotiator, they can be the basis for constructing

win-win agreements (Adler, 1991). The synergistic negotiating process includes the stages of preparation, relationship building, information exchange, negotiation, progression, and agreement. Of these stages, research indicates that information exchange, which is directly affected by cultural dimension differences, is one of the most influential factors in achieving integrative solutions when attempting to negotiate international agreements (Walton & McKersie 1965).

RELATIONSHIP BETWEEN CULTURAL DIMENSIONS AND INTERNATIONAL NEGOTIATIONS

While we have examined the evolution of an approach to achieving integrative outcomes from international business negotiations, theoretical limitations continue to exist with cross-cultural applications of principled negotiating and its internationalized modification of synergistic negotiating. These limitations are rooted in the role of culture through its influence on communication styles and cognitive biases. These two effects of culture impact the very effectiveness of the negotiating process.

The various dimensions of culture examined previously are fundamental to obtaining not only a proper understanding of the cultural background of various nations, but also in determining which biases may be inherent in them. With most international business negotiations research focusing on the relationship between culture and behavior, few studies have examined culture in reference to the outcome of negotiations (Natlandsmyr

& Rognes 1995). This demonstrates a need for additional research in to the role of culture in international business negotiations. While most models assume outcome is based upon aspects of negotiation style or preparation, certain negotiation outcomes may not be obtainable in various situations.

Most past research identifies negotiation as a product of antecedent inputs and static or synergistic solution production which can result in integrative, distributive, or null outcomes (Adler 1991; Natlandsmyr et al., 1995; Pruitt 1981;). Antecedent inputs include cultural biases, which can be perceptual and cognitive, motivation level, and negotiation behavior (Natlandsmyr et al. 1995). Common biases center on a culture's ability to perceive integrative outcomes and tolerate risk (Bazerman & Carroll 1987). A culture which is highly risk averse and which perceives negotiations as static (zero-sum) will have great difficulty in participating in synergistic negotiations (Natlandsmyr et al. 1995). In contrast to this static/averse cultural perception, research indicates that cultures with a less competitive / individualistic, problem solving orientation are more predisposed to synergistic negotiating (Schultz & Pruitt 1978). This role of competitiveness as an issue in the pursuit of integrative outcomes is further supported by some of Pruitt's (1990) more recent work on competitive orientation as an obstacle to integrative solutions.

This review of culture and its role in negotiation behavior leaves us in need of a more encompassing cross-cultural framework for negotiation. We have examined the existence of dimension distance differentials across national cultures, and the effects

these produce. Prominent researchers point to the economic utility of knowledge regarding national culture profiles (Franke, Hofstede, & Bond 1991). We have learned from previous studies that cultures with high masculinity, (assertive and competitive behavior), seek distributive outcomes and will have great difficulty with a synergistic negotiation process. Cultures with high uncertainty avoidance and power distance will be likely to accept distributive outcomes and less likely to be comfortable with a synergistic negotiating process. This impact of culture through the influence of cognitive bias creates a challenge to negotiating strategy and a void which seeks a model that can predict and obtain integrative outcomes.

QUESTIONS FOR FUTURE RESEARCH

What role can previous negotiation models such as the synergistic negotiating style play in achieving integrative outcomes given the impact of cultural bias? Such a challenge provides many avenues of approach. One approach which could be pursued is to examine the relationship among the inputs of the cultural dimensions of the negotiators, the negotiation style utilized, and the type of outcomes achieved. Another approach could examine the relationship among the distance between cultural dimensions of the negotiating parties, negotiating style, and the type of agreement outcome. Due to the diversity of approaches and the wealth of research questions within this area, I will limit this paper to examining the role of inter-nation cultural dimension distance and negotiating style upon the type of outcomes produced. The formal research question

may be "Is there a relationship between cultural distance and negotiating style upon the type of outcomes produced in cross-cultural negotiations?"

Initially I propose that firms from nations that are similar on Hofstede's dimensions will come to agreement in a shorter period of time than firms from dissimilar nations.

Nations high in masculinity, uncertainty avoidance, power distance, and individualism will be unable to, or have great difficulty engaging in synergistic negotiations and achieving integrative outcomes. Nations which are collectivist, feminine, have a low uncertainty avoidance, and a lower tolerance for power distance will be more predisposed to synergistic negotiating and to achieving integrative outcomes. Note this relationship between group type and synergistic negotiating ability is diametrically opposed to the relationships which occur in traditional (positional) negotiating for these groups.

Proposition 1: As a nation's rank increases on the cultural dimensions of power distance, uncertainty avoidance, masculinity, and individualism, there will be less synergism and a decreased likelihood of integrative agreements.

Negotiations between nations with low inter-nation cultural dimension distance will reach agreement with integrative outcomes more often. Negotiations between nations with low cultural distance will have shorter time spans. Proximity of cultural dimensions mean similarities in the cognitive and perceptual biases, communication style, and negotiation behavior of the parties involved in the negotiation. These similarities will

produce a higher level of comfort among the negotiators which will serve to facilitate an enhanced negotiating process.

Proposition 2: Nations similar in cultural dimensions will reach integrative outcomes more frequently and in shorter time spans than nations of dissimilar cultural dimensions.

Negotiations demonstrating high levels of synergism will produce integrative outcomes more often than negotiations without. Negotiations demonstrating high levels of synergism will reach integrative agreements in shorter time spans than traditional negotiations. Negotiations which have strong relationship building will reach integrative agreements more often and in shorter time spans than negotiations without.

Proposition 3: Negotiations high in synergistic dimensions, particularly relationship building, will produce integrative outcomes more frequently and in shorter time spans.

CONCLUSIONS

In this study we have examined the various dimensions of culture and international business negotiations. I have attempted to demonstrate how culture interacts with the negotiation process to produce integrative, distributive, or null outcomes. These ideas may serve as a useful tool for negotiators at both the national and firm level to facilitate cross-cultural arrangements which produce integrative outcomes. Further research is

clearly needed to empirically test the hypothesized relationships among the constructs in this paper, and to determine the accuracy of the speculative propositions. This stream of research is fundamental to the expansion of world trade and the enhancement of international trading arrangements. Further evolution of our system of international business, to a framework which facilitates integrative outcomes, has the potential to eventually alleviate the economic concerns and solve the challenges among the various national cultures of the world.

REFERENCES

- Adler, N. J. 1991. *International Dimensions of Organizational Behavior*. Belmont, CA: Wadsworth Publishing. 179-221.
- Bazerman, M., & Carroll, J. 1987. Negotiator Cognition. In B. Staw & L.L. Cummings, editor, *Research in Organizational Behavior*, 9: 247-288. Greenwich, CT: JAI Press.
- Boudreaux, D. 1995. Personal Communication.
- Currie, R. 1991. Remuneration to Fit the Culture. *Multinational Business*, (3) Autumn: 8-17.
- Franke, R.H., Hofstede G., & Bond, M.H. 1991. Cultural Routes of Economic Performance: A Research Note. *Strategic Management Journal*, 12 (Summer): 165-173.
- Hodgetts, R. 1993. A Conversation With Geert Hofstede. *Organizational Dynamics*, 21 (4) (Spring):53-61.
- Hofstede, G. 1980. Motivation, Leadership, and Organizations: Do American Theories Apply Abroad? *Organizational Dynamics*, (Summer).
- Hofstede, G. 1991. *Cultures and Organizations: Software of the Mind*. London: McGraw-Hill Book Company.
- Natlandsmyr, J., & Rognes, J. 1995. Culture, Behavior, and Negotiation Outcomes: A Comparative and Cross-Cultural Study of Mexican and Norwegian Negotiators. *The International Journal of Conflict Management*, 6(1).
- Pruitt, D. 1981. *Negotiation Behavior*. New York: Academic Press.
- Pruitt, D. 1990. Problem Solving and Cognitive Biases in Negotiation: A Commentary. In B.H. Sheppard, M.H. Bazerman, & R.J. Lewicki, editors, *Research on Negotiation in Organizations*, 2: 117-122). Greenwich, CT: JAI Press.
- Schultz, J., & Pruitt, D. 1978. The Effects of Mutual Concern on Joint Welfare. *Journal of Experimental Psychology*, 14, 480-492.
- Walton, L., & McKersie, R. 1965. *A Behavioral Theory of Labor Negotiations: An Analysis of a Social Interaction System*. New York: McGraw-Hill.